

**NEWPORT INDEPENDENT
SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2012**

- WITH INDEPENDENT AUDITORS' REPORT -

**NEWPORT INDEPENDENT SCHOOL DISTRICT
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Independent Auditors' Report

Members of the Board of Education
Newport Independent School District
301 East 8th Street
Newport, Kentucky 41071

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Newport Independent School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

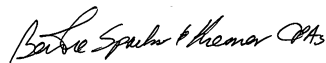
We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Newport Independent School District, as of June 30, 2012, and the respective changes in financial position, respective budgetary comparison for the General Fund and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 20, 2012, on our consideration of the Newport Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 11, and Budgetary Comparison Information, on page 18, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Newport Independent School District's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Bertke, Sparks & Kremer, Inc.
August 20, 2012

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
FOR THE YEAR ENDED JUNE 30, 2012**

As management of the Newport Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

The District continues to move forward with three major goals: 1. improve literacy K-12 (50% of all students K-12 will be reading at grade level by Spring 2013); 2. increase the use of data and monitoring of student progress to make data-driven decisions; 3. develop a culture where all staff know our students and every child has an adult advocate.

The strategic goals of Newport Independent Schools align with evidence-based best practices in education and Northern Kentucky's Vision 2015 initiative focused on the alignment and support of P-16 education.

ACADEMIC PROGRESS HIGHLIGHTS

- The District continued the Measures of Academic Progress (MAP) assessment tool to monitor learning throughout the year over the entire K-12 period. The MAP program allows teachers to adjust instruction during the school year to meet the needs of each student as well as compare student learning over time and against national averages. Students are assessed reading, language usage, and mathematics. Students are also assessed in science in grades 3-12.
- The District's preschool program continues to show, through third party assessments (NKU) and screening data, that it is successfully preparing our students for Kindergarten and future academic success. Through a collaborative partnership with Brighton Center, Children Inc., NKU, United Way, and Head Start; the District continues to build on the strengths of the early childhood program.
- NECI (Newport Early Childhood Initiative)-A new Early Childhood Strategic Plan was developed which involved all partners. Goals include (1) Connect data base with Infinite Campus and expand data utilization; (2) increase the number of children participating in partner programs; (3) develop a sustainability plan; (4) implement more family engagement activities; and (5) increase the number of children in partner programs including HIPPY, who will enter kindergarten ready for instruction; and (6) ensure all children will receive appropriate interventions. More emphasis is being placed on school readiness for kindergarten. The school readiness skills and behaviors are aligned to the Kentucky Early Childhood Standards and adapted from the Northern Kentucky Council of Partners in Education Kindergarten Readiness documents.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

ACADEMIC PROGRESS HIGHLIGHTS (CONT'D)

- Kindergarten students continue to show improvement in DIAL-3 scores. Greatest gains are in the Language subtest. 2011-2012-Pre-Test-Total Average-46.12---Post –Test -67.32.

2011-2012 DIAL-3 Language Scores		
Pre-Test	Post-Test	Gain
46.12	67.32	21.20

- Overall, preschoolers have shown significant gains each year on the DIAL-3. Students who were below a 50 NCE were referred to summer sessions with Children Inc.

2011-2012 DIAL-3 Overall Scores		
Pre-Test	Post-Test	Gain
58.25	80.51	22.26

- The Newport Preschool Center at ACES continues to maintain a top Kentucky honor of being rated 4 Stars for child care. Operating in partnership with Children’s Inc., the Newport Preschool Center received a 4-Star rating from STARS for KIDS NOW, part of the KIDS Now Early Childhood Initiative.
- As a District, based on KCCT data, we see a need to increase the literacy and numeracy intervention initiatives in order to decrease novice and increase proficiency in reading and mathematics at both the elementary and secondary levels.
- Construction was completed during the 2011-2012 school year on the new Child Care Center at Newport High School. The renovation of the old broadcasting classroom has provided the needed space for the center. This program assists students to stay in school and to provide quality care for infants and toddlers. In addition, it will assist in the implementation of dropout prevention strategies within the District.
- ACT scores increased for the third straight year at Newport High School. Through various professional development and intentional planning, students’ composite scores have gone from 16.5 to 17.6.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

ACADEMIC PROGRESS HIGHLIGHTS (CONT'D)

- Parent involvement was encouraged with various parents attending the Prichard Committee parent meetings. The District continues to benefit from this program to assist in increasing parental involvement in Newport Independent Schools.
- The middle school continues to see success with the implementation of the 4A Program which provides incentives for students in the areas of attendance, academics, school activities, and attitudes/expectations.
- The high school continued the PLATO Credit Recovery Program. Last year, 104 high school students participated in the program and 162 credits were awarded.
- Various instructional and behavioral interventions were implemented by our schools: Read to Achieve, ABRI (Academic and Behavioral RTI through the University of Louisville), ESS services including Day Waiver teachers, Gifted and Talented services, MAP testing with Descartes to support instruction, Family Resource services, Read 180, System 44, Literacy consultants, Math consultants, Connected Math, Everyday Math, Constructed Response staff development, ACT Readiness Standards implementation, ILP (Individual Learning Plan) implementation, parent involvement programs, PLATO Credit Recovery, Standards Based units, and Mental Health counselors.
- The KY Scholars program continues to promote college planning and rigor in course selection.
- Through a partnership with the Free Store Food Bank, the District is able to provide weekend meals to students identified as chronically hungry in all of our elementary schools and our middle school at no cost. Kids Café' also provided meals to children who are 18 years and younger twice per week in the middle school cafeteria.
- The 21st Century Community Learning Center grant continues to target at-risk students and provide intervention and enrichment programs/activities centered on reducing barriers to learning for students and increase college and career readiness. In addition, Children's Inc. continues to partner with the District to also provide after-school programs. The grant is also designed to provide summer and after-school programs to assist with enrichment activities.
- ESS services continue to be offered through after-school tutoring services and day-waiver programs during the school day. The total students served in 2011-12 were 654.
- The Nutritional and Physical Report Card showed that we served an average of 1,511 students per day for lunch, and 758 students per day for breakfast. There was also an after-school snack program which served an average of 15 students per day. Students received the option of also purchasing a la carte food and beverage items.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

ACADEMIC PROGRESS HIGHLIGHTS (CONT'D)

- District Guidance Counselors reviewed the current guidance plan. Academics, career plans, and behavior interventions are included in the plan and are being implemented.
- An innovative 2012-2013 school calendar was approved by KDE to facilitate increased and ongoing job embedded professional development through the use of early release days.
- The District continues to use *SchoolPoint*, *School Messenger*, Facebook, and other mediums to communicate up-to-date information to students, parents, community, and all stakeholders involved in the academic success of students.
- Parent involvement was encouraged with various parents attending the Prichard Committee parent meetings. Committees are being formed to expand parent involvement.
- Professional development continued to be implemented with schools focusing on academic standards, literacy interventions, math interventions, and the alignment of the Kentucky Core Academic Standards with formative and summative assessments.
- The District continued to expand on technology by investing \$100,000 in hardware and equipment for Newport High School to expand technology based instruction and wireless device capabilities. Interactive whiteboards, instructional software, video projectors, and document cameras have been purchased to create 21st Century Learning Classrooms that are interactive and engaging to students.

Newport Independent Schools invites you to learn more about our ongoing efforts to become the finest small urban school district in America.

FINANCIAL HIGHLIGHTS

- The beginning cash balance for the District was \$2,582,901.
- The General Fund had \$16,302,339 in revenue, excluding inter-fund transfers, which primarily consisted of the state program (SEEK), property, local occupational license taxes, utilities, and motor vehicle taxes and the sale of a building. Excluding inter-fund transfers, there was \$15,851,281 in General Fund expenditures.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 12 and 13 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 14 through 23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 38 of this report.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$11,907,538 as of June 30, 2012.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the periods ending June 30, 2012 and 2011

The following table presents a summary of net assets for the fiscal years ended June 30, 2012 and 2011.

	2012	2011
Current assets	\$ 5,153,660	\$ 4,026,939
Noncurrent assets	<u>12,131,433</u>	<u>10,578,464</u>
Total assets	<u>\$ 17,285,093</u>	<u>\$ 14,605,403</u>
Current liabilities	\$ 1,753,504	\$ 1,622,230
Noncurrent liabilities	<u>3,624,051</u>	<u>2,262,230</u>
Total liabilities	<u>\$ 5,377,555</u>	<u>\$ 3,884,460</u>
Net assets		
Investment in capital assets (net of debt)	\$ 7,958,239	\$ 7,915,315
Restricted	1,269,570	602,228
Nonspendable	13,864	13,864
Assigned	5,173	-
Committed	50,000	50,000
Unassigned	<u>2,610,692</u>	<u>2,139,536</u>
Total net assets	<u>\$ 11,907,538</u>	<u>\$ 10,720,943</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

Comments on Budget Comparisons

- The District's total general fund revenues for the fiscal year ended June 30, 2012, net of Inter-fund transfers, were \$16,302,339.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$2,285,085 more than budget or approximately 16.2%. The majority of the difference is the result of the District recording "on behalf" payments made by the state.
- The total cost of all programs and services in the general fund was \$15,851,281, net of debt service.
- General Fund actual expenditures exceeded budgeted expenditures by \$1,104,414 in instruction. This is a result of the District recording "on behalf" payments made by the State.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

The following table presents a summary of revenues and expenses for the fiscal years ended June 30, 2012 and 2011.

	2012	2011
Revenues:		
Program Revenues:		
Charges for services	\$ 105,930	\$ 233,549
Operating grants and contributions	5,685,523	6,423,841
Capital grants and contributions	<u>317,507</u>	<u>372,322</u>
Total grant revenues	<u>6,108,960</u>	<u>7,029,712</u>
General Revenues:		
Taxes	8,056,730	7,498,414
Grants and entitlements	8,609,145	8,627,959
Earnings on investments	8,398	1,708
Miscellaneous	<u>326,336</u>	<u>2,077,583</u>
Total general revenues	<u>17,000,609</u>	<u>18,205,664</u>
Total revenues	<u>23,109,569</u>	<u>25,235,376</u>
Expenses:		
Instruction	12,650,154	12,647,085
Student support services	685,997	675,577
Instructional support	1,009,537	1,456,866
District administration	1,308,227	1,289,589
School administration	1,329,042	1,252,364
Business support	722,955	737,654
Plant operations	1,937,462	2,366,192
Student transportation	622,770	618,011
Central office support	647	-
Facilities acquisition and construction	-	-
Community support	371,120	382,096
Other	7,032	9,378
Debt service	73,621	110,827
Food service	<u>1,204,410</u>	<u>1,133,849</u>
Total expenses	<u>21,922,974</u>	<u>22,679,488</u>
Revenue in excess of expense	<u>\$ 1,186,595</u>	<u>\$ 2,555,888</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1-June 30; other programs, i.e. some federal, operate on a different fiscal calendar but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget with \$2,127,138 in contingency (14.8%). The beginning cash balance for beginning the fiscal year is \$2,582,901.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Questions regarding this report should be directed to Tete Turner, Director of Financial Services at (859) 292-3034 or by mail at 301 E. 8th Street, Newport, Kentucky 41071.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS - DISTRICT WIDE
AS OF JUNE 30, 2012**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
CURRENT			
Cash and cash equivalents	\$ 3,953,132	\$ 53,914	\$ 4,007,046
Accounts receivable	1,122,075	19,198	1,141,273
Inventories for consumption	-	5,341	5,341
Investments	-	-	-
Total current	<u>5,075,207</u>	<u>78,453</u>	<u>5,153,660</u>
NONCURRENT			
Bond issuance costs - net	30,558	-	30,558
Nondepreciated capital assets:			
Land	1,109,955	-	1,109,955
Construction in progress	1,499,684	-	1,499,684
Depreciated capital assets:			
Land improvements	-	-	-
Buildings and improvements	25,228,149	-	25,228,149
Furniture and equipment	2,604,010	593,016	3,197,026
Less: accumulated depreciation	<u>(18,345,510)</u>	<u>(588,429)</u>	<u>(18,933,939)</u>
Total noncurrent	<u>12,126,846</u>	<u>4,587</u>	<u>12,131,433</u>
Total assets	<u><u>\$ 17,202,053</u></u>	<u><u>\$ 83,040</u></u>	<u><u>\$ 17,285,093</u></u>
LIABILITIES			
CURRENT			
Current portion of bonds payable	\$ 982,143	\$ -	\$ 982,143
Current portion of accrued sick leave	48,152	-	48,152
Accounts payable	134,801	11,039	145,840
Accrued payroll and related expenses	134,946	-	134,946
Accrued interest	21,747	-	21,747
Deferred revenues	<u>420,676</u>	<u>-</u>	<u>420,676</u>
Total current	<u>1,742,465</u>	<u>11,039</u>	<u>1,753,504</u>
NONCURRENT			
Accrued sick leave	433,000	-	433,000
Long term bonds payable	<u>3,191,051</u>	<u>-</u>	<u>3,191,051</u>
Total noncurrent	<u>3,624,051</u>	<u>-</u>	<u>3,624,051</u>
Total liabilities	<u>5,366,516</u>	<u>11,039</u>	<u>5,377,555</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,953,652	4,587	7,958,239
Restricted			
Net assets	-	51,937	51,937
Capital projects	1,217,633	-	1,217,633
Nonspendable	-	13,864	13,864
Committed			
Accrued sick leave	50,000	-	50,000
Assigned			
Purchase obligations	3,560	1,613	5,173
Unassigned	<u>2,610,692</u>	<u>-</u>	<u>2,610,692</u>
Total net assets	<u>11,835,537</u>	<u>72,001</u>	<u>11,907,538</u>
Total liabilities and net assets	<u><u>\$ 17,202,053</u></u>	<u><u>\$ 83,040</u></u>	<u><u>\$ 17,285,093</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES - DISTRICT WIDE
FOR THE YEAR ENDED JUNE 30, 2012**

FUNCTION/PROGRAMS	PROGRAM REVENUES				NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS		TOTAL
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
Governmental Activities:							
Instructional	\$ 12,650,154	\$ -	\$ 3,898,180	\$ -	\$ (8,751,974)	\$ -	\$ (8,751,974)
Student support services	685,997	-	19,814	-	(666,183)	-	(666,183)
Staff support services	1,009,537	-	357,784	-	(651,753)	-	(651,753)
District administration	1,308,227	-	31	-	(1,308,196)	-	(1,308,196)
School administration	1,329,042	-	2,558	-	(1,326,484)	-	(1,326,484)
Business support services	722,955	-	5,804	-	(717,151)	-	(717,151)
Plant operation and maintenance	1,937,462	-	-	-	(1,937,462)	-	(1,937,462)
Student transportation	622,770	-	780	-	(621,990)	-	(621,990)
Central office	647	-	-	-	(647)	-	(647)
Community service operations	371,120	-	355,894	-	(15,226)	-	(15,226)
Facility acquisition and construction	-	-	-	317,507	317,507	-	317,507
Education specific	316	-	-	-	(316)	-	(316)
Other	6,716	-	-	-	(6,716)	-	(6,716)
Interest on long-term debt	73,621	-	-	-	(73,621)	-	(73,621)
Total governmental activities	20,718,564	-	4,640,845	317,507	(15,760,212)	-	(15,760,212)
Business-type Activities							
Food service	1,204,410	105,930	1,044,678	-	-	(53,802)	(53,802)
Total business-type activities	1,204,410	105,930	1,044,678	-	-	(53,802)	(53,802)
Total school district	<u>\$ 21,922,974</u>	<u>\$ 105,930</u>	<u>\$ 5,685,523</u>	<u>\$ 317,507</u>	<u>\$ (15,760,212)</u>	<u>\$ (53,802)</u>	<u>\$ (15,814,014)</u>
General Revenues							
Taxes					\$ 8,056,730	\$ -	\$ 8,056,730
State aid formula grants					8,609,145	-	8,609,145
Investment earnings					8,398	-	8,398
Miscellaneous					42,214	-	42,214
Special items:							
Loss on bond refunding - principal					(27,909)	-	(27,909)
Gain of sale of fixed assets and insurance claims					214,883	-	214,883
Bond principal paid by KSFCC					97,148	-	97,148
Total general and special revenues					17,000,609	-	17,000,609
Change in net assets					1,240,397	(53,802)	1,186,595
Net assets - beginning					10,595,140	125,803	10,720,943
Net assets - ending					<u>\$ 11,835,537</u>	<u>\$ 72,001</u>	<u>\$ 11,907,538</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012**

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
CURRENT					
Cash and cash equivalents (deficit)	\$ 3,082,714	\$ (430,203)	\$ 992,282	\$ 308,339	\$ 3,953,132
Investments	-	-	-	-	-
Accounts receivable	246,122	875,953	-	-	1,122,075
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total current	<u>\$ 3,328,836</u>	<u>\$ 445,750</u>	<u>\$ 992,282</u>	<u>\$ 308,339</u>	<u>\$ 5,075,207</u>
LIABILITIES AND FUND BALANCE					
CURRENT					
Accounts payable	\$ 109,727	\$ 25,074	\$ -	\$ -	\$ 134,801
Accrued payroll and related expenses	134,946	-	-	-	134,946
Deferred revenues	-	420,676	-	-	420,676
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total current	<u>244,673</u>	<u>445,750</u>	<u>-</u>	<u>-</u>	<u>690,423</u>
FUND BALANCE					
Restricted					
Capital projects	-	-	992,282	225,351	1,217,633
Committed					
Accrued sick leave	50,000	-	-	-	50,000
Assigned					
Purchase obligations	3,560	-	-	-	3,560
Unassigned	3,030,603	-	-	82,988	3,113,591
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>3,084,163</u>	<u>-</u>	<u>992,282</u>	<u>308,339</u>	<u>4,384,784</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 3,328,836</u>	<u>\$ 445,750</u>	<u>\$ 992,282</u>	<u>\$ 308,339</u>	<u>\$ 5,075,207</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012**

Total governmental fund balance	\$	4,384,784
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Amounts reported for governmental activities in the statement of net assets are different because:

Bond issuance costs - net of amortization		30,558
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Construction in progress	1,499,684		
Cost of capital assets	28,942,114		
Accumulated depreciation	<u>(18,345,510)</u>		
			12,096,288

Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year end consist of:

Bonds payable		(4,173,194)	
Accrued interest		(21,747)	
Accrued sick leave		<u>(481,152)</u>	

Total net assets - governmental	\$	<u><u>11,835,537</u></u>
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NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	\$ 7,558,773	\$ -	\$ -	\$ 497,957	\$ 8,056,730
Earnings on investments	7,114	-	-	1,284	8,398
State sources	8,571,741	1,205,098	-	317,507	10,094,346
Federal sources	37,404	3,351,501	-	-	3,388,905
Other sources	122,885	84,246	-	-	207,131
Total revenues	16,297,917	4,640,845	-	816,748	21,755,510
EXPENDITURES:					
Instructional	8,430,811	3,910,221	-	-	12,341,032
Student support services	627,316	19,814	-	-	647,130
Staff support services	645,748	357,784	-	-	1,003,532
District administration	1,283,922	31	-	-	1,283,953
School administration	1,307,446	2,558	-	-	1,310,004
Business support services	713,609	5,804	-	-	719,413
Plant operation and maintenance	2,203,457	-	-	-	2,203,457
Student transportation	598,371	780	-	-	599,151
Central office	647	-	-	-	647
Community service operation	15,226	355,894	-	-	371,120
Facility acquisition and construction	-	-	1,499,685	-	1,499,685
Educational specific	-	-	-	-	-
Debt service:					
Principal	15,685	-	-	742,121	757,806
Interest	9,043	-	-	74,628	83,671
Total expenditures	15,851,281	4,652,886	1,499,685	816,749	22,820,601
Excess (deficit) of revenues over expenditures	446,636	(12,041)	(1,499,685)	(1)	(1,065,091)
OTHER FINANCING SOURCES(USES):					
Proceeds from sale of assets	4,422	-	-	-	4,422
Proceeds from sale of bonds	-	-	2,308,831	-	2,308,831
Operating transfers in	107,154	61,374	183,136	-	351,664
Operating transfers out	(199,866)	(49,333)	-	(183,136)	(432,335)
Total other financing sources (uses)	(88,290)	12,041	2,491,967	(183,136)	2,232,582
Net change in fund balances	358,346	-	992,282	(183,137)	1,167,491
Fund balance, July 1, 2011	2,725,817	-	-	491,476	3,217,293
Fund balance, June 30, 2012	\$ 3,084,163	\$ -	\$ 992,282	\$ 308,339	\$ 4,384,784

(See Auditors' Report and Accompanying Notes to the Financial Statements)

NEWPORT INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Net changes-governmental funds \$ 1,167,491

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital additions exceed depreciation expense for the year.

Construction in progress	1,499,684	
Depreciation expense	(550,054)	
Capital outlays	367,934	
Retirements of capital assets	<u>210,461</u>	
		1,528,025

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets however issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Proceeds from sale of bonds	(2,308,831)
Loss on bond sale	(27,909)
Principal paid	854,954

Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.

	<u>26,666</u>
Changes in net assets of governmental activities	<u><u>\$ 1,240,396</u></u>

NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	\$ 7,453,801	\$ 7,453,801	\$ 7,558,773	\$ 104,972
Other local sources	261,255	262,553	129,998	(132,555)
State sources	6,258,902	6,258,902	8,571,741	2,312,839
Federal sources	35,000	35,000	37,404	2,404
Other sources	114,151	114,151	111,576	(2,575)
Total revenues	14,123,109	14,124,407	16,409,492	2,285,085
EXPENDITURES:				
Instructional	7,373,852	7,326,397	8,430,811	(1,104,414)
Student support services	541,093	553,893	627,316	(73,423)
Staff support services	606,214	605,240	645,748	(40,508)
District administration	1,293,042	1,291,840	1,283,922	7,918
School administration	1,091,750	1,124,325	1,307,446	(183,121)
Business support services	625,058	635,058	713,609	(78,551)
Plant operation and maintenance	2,137,334	2,172,834	2,203,457	(30,623)
Student transportation	596,798	596,798	598,371	(1,573)
Food service operation	-	-	647	(647)
Community service operation	-	-	15,226	(15,226)
Facility acquisition and construction	-	-	-	-
Contingency	2,127,138	2,416,379	-	2,416,379
Other	77,460	77,460	224,593	(147,133)
Total expenditures	16,469,739	16,800,224	16,051,146	749,078
Net change in fund balance	(2,346,630)	(2,675,817)	358,346	3,034,163
Fund balance, July 1, 2011	-	2,675,817	2,725,817	(50,000)
Fund balance, June 30, 2012	\$ (2,346,630)	\$ -	\$ 3,084,163	\$ 2,984,163

**NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS - PROPRIETARY FUND
AS OF JUNE 30, 2012**

	FOOD SERVICE	TOTAL
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 53,914	\$ 53,914
Accounts receivable	19,198	19,198
Inventories for consumption	5,341	5,341
Total current	78,453	78,453
NONCURRENT		
Furniture and equipment	593,016	593,016
Less: accumulated depreciation	(588,429)	(588,429)
Total noncurrent	4,587	4,587
Total assets	\$ 83,040	\$ 83,040
LIABILITIES		
CURRENT		
Accounts payable	\$ 11,039	\$ 11,039
Total current	11,039	11,039
NET ASSETS		
Invested in capital assets, net of related debt	4,587	4,587
Nonspendable - inventories	13,864	13,864
Restricted - net assets	51,937	51,937
Assigned - Purchase obligations	1,613	1,613
Unrestricted	-	-
Total net assets	72,001	72,001
Total liabilities and net assets	\$ 83,040	\$ 83,040

(See Auditors' Report and Accompanying Notes to the Financial Statements)

NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	FOOD SERVICE	TOTAL
OPERATING REVENUES:		
Lunchroom sales	\$ 104,951	\$ 104,951
Other operating revenues	979	979
	<hr/>	<hr/>
Total operating revenues	105,930	105,930
	<hr/>	<hr/>
OPERATING EXPENSES:		
Salaries and benefits	542,597	542,597
Contract services	36,768	36,768
Materials and supplies	568,200	568,200
Depreciation	2,217	2,217
Other operating expenses	38	38
	<hr/>	<hr/>
Total operating expenses	1,149,820	1,149,820
	<hr/>	<hr/>
Operating loss	(1,043,890)	(1,043,890)
	<hr/>	<hr/>
NONOPERATING REVENUES (EXPENSES):		
Federal grants	906,261	906,261
State grants	74,765	74,765
Donated commodities and other donations	63,652	63,652
Gain on disposal of fixed assets	-	-
Transfers	(54,590)	(54,590)
Interest income	-	-
	<hr/>	<hr/>
Total nonoperating revenues (expenses)	990,088	990,088
	<hr/>	<hr/>
Net loss	(53,802)	(53,802)
	<hr/>	<hr/>
Total net assets, July 1, 2011	125,803	125,803
	<hr/>	<hr/>
Total net assets, June 30, 2012	\$ 72,001	\$ 72,001
	<hr/> <hr/>	<hr/> <hr/>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	FOOD SERVICE FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from lunchroom sales	\$ 104,951	\$ 104,951
Cash received from other activities	979	979
Cash payments to employees for services	(542,597)	(542,597)
Cash payments to suppliers for goods and services	(585,444)	(585,444)
Cash transfers	(54,590)	(54,590)
	<u>(1,076,701)</u>	<u>(1,076,701)</u>
Net cash used in operating activities		
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Acquisition of capital assets	(5,617)	(5,617)
	<u>(5,617)</u>	<u>(5,617)</u>
Net cash used in capital financing activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Non-operating revenues received	1,030,864	1,030,864
	<u>1,030,864</u>	<u>1,030,864</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	-	-
	<u>-</u>	<u>-</u>
Net cash flows provided by investing activities		
Net decrease in cash and cash equivalents	(51,454)	(51,454)
Cash and cash equivalents - beginning	105,368	105,368
Cash and cash equivalents - ending	<u>\$ 53,914</u>	<u>\$ 53,914</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (1,043,890)	\$ (1,043,890)
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Depreciation	2,217	2,217
Interfund transfers	(54,590)	(54,590)
Changes in assets and liabilities:		
Decrease in inventories for consumption	8,523	8,523
Increase in accounts payable	11,039	11,039
	<u>11,039</u>	<u>11,039</u>
Net cash used in operating activities	<u>\$ (1,076,701)</u>	<u>\$ (1,076,701)</u>
SCHEDULE OF NON-CASH TRANSACTIONS:		
Donated commodities received from the federal government	<u>\$ 63,652</u>	<u>\$ 63,652</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
AS OF JUNE 30, 2012**

	<u>TRUST/AGENCY FUND</u>	<u>CHESTER DAVIS SCHOLARSHIP FUND</u>	<u>TOTAL</u>
ASSETS			
CURRENT			
Cash and cash equivalents	\$ -	\$ 15,000	\$ 15,000
Investments	-	538,979	538,979
Accounts receivable	-	-	-
	<hr/>	<hr/>	<hr/>
Total current assets	-	553,979	553,979
	<hr/>	<hr/>	<hr/>
NONCURRENT			
Total noncurrent assets	-	-	-
	<hr/>	<hr/>	<hr/>
Total assets	\$ -	\$ 553,979	\$ 553,979
	<hr/>	<hr/>	<hr/>
LIABILITIES			
CURRENT			
Accounts payable	\$ -	\$ -	\$ -
	<hr/>	<hr/>	<hr/>
Total current	-	-	-
	<hr/>	<hr/>	<hr/>
NONCURRENT			
Total noncurrent	-	-	-
	<hr/>	<hr/>	<hr/>
Total liabilities	-	-	-
	<hr/>	<hr/>	<hr/>
NET ASSETS			
UNRESTRICTED			
	-	553,979	553,979
	<hr/>	<hr/>	<hr/>
Total net assets	-	553,979	553,979
	<hr/>	<hr/>	<hr/>
Total liabilities and net assets	\$ -	\$ 553,979	\$ 553,979
	<hr/>	<hr/>	<hr/>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>TRUST/AGENCY FUND</u>	<u>CHESTER DAVIS SCHOLARSHIP FUND</u>	<u>TOTAL</u>
ADDITIONS			
Net interest and investment gains (losses) \$	-	\$ 25,098	\$ 25,098
Private donations and other	30,003	16,000	46,003
Fund transfers	135,261	-	135,261
Student activities	11,700	-	11,700
	<u>176,964</u>	<u>41,098</u>	<u>218,062</u>
Total additions			
DEDUCTIONS			
Instruction	103,814	-	103,814
Community services	-	32,672	32,672
Fund transfer	-	-	-
	<u>103,814</u>	<u>32,672</u>	<u>136,486</u>
Total deductions			
Change in net assets	73,150	8,426	81,576
Net assets - July 1, 2011	(73,150)	545,553	472,403
Net assets - June 30, 2012	<u>\$ -</u>	<u>\$ 553,979</u>	<u>\$ 553,979</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Newport Independent Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Newport Independent School District (District). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Newport Independent Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Newport Independent School District Finance Corporation - On December 2, 1988, the Newport Independent Board of Education resolved to authorize the establishment of the Newport Independent School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Newport Independent Board of Education also comprise the Corporation's Board of Directors.

Basis of Presentation

District Wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The district-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the schedule of expenditures of federal awards included in this report on page 45. This is a major fund of the District.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

I. Governmental Fund Types (cont'd)

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Technology Fund accounts for the Kentucky Education Technology System (KETS) allocation and local district matching funds restricted for the purchase of technology consistent with the District's approved technology plan. The balance in the fund represents additional local money in excess of required matching funds.
4. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

II. Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation (cont'd)

III. Proprietary Fund (Enterprise Fund)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service fund is a major fund of the District.

The District applies all Government Accounting Standards Board (GASB) pronouncements to proprietary funds as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

IV. Fiduciary Fund Type (Agency and Trust Funds)

The Trust/Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations, is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Accounting (cont'd)

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP) of the United States of America. The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The Board considers demand deposits, money market funds and other investments with an original maturity of 90 days or less, to be cash equivalents.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Inventories

Supplies and materials are charged to expenditures when purchased, except for inventories in the Proprietary Fund, which are capitalized at the lower of cost or market.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Other	10 years

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Fund Balance Reserves

Beginning with fiscal year 2011, the District implemented GASB Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact;

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the District takes the action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for specific purpose (such as encumbrances); intent can be expressed by the District or by an official or body to which the District delegates the authority.

Unassigned fund balance – amounts that are available for purpose; positive amounts are reported only in the General fund.

It is the Board's practice to liquidate funds when conditions have been met releasing these funds from legal, contractual, Board or managerial obligations, using restricted funds first, followed by committed funds, assigned funds, then unassigned funds.

Encumbrances are not liabilities and are not recorded as expenditures until receipt of material or service. Encumbrances remaining open at the end of the fiscal year are automatically re-budgeted in the following fiscal year. Encumbrances are considered a managerial assignment of fund balance in the governmental funds balance sheet.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B - ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - CASH AND CASH EQUIVALENTS

At year end, the District had on deposit, cash and cash equivalents totaling \$4,350,584. Of the total cash balance, \$250,000 was covered by the Federal Deposit Insurance Corporation (FDIC), with the remainder covered by a collateral agreement and collateral held by the pledging banks' trust department in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2012 consist of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
The Bank of Kentucky	<u>\$ 4,350,584</u>	<u>\$ 4,145,437</u>

Breakdown per financial statements:

Governmental funds	\$ 3,953,132
Proprietary funds	53,914
Trust and Agency funds	15,000
Activity funds	<u>123,391</u>
Total cash and cash equivalents	<u>\$ 4,145,437</u>

NOTE D - ACCUMULATED UNPAID SICK LEAVE BENEFITS

Upon providing proof of qualification as an annuitant from the Kentucky Teacher's Retirement System, certified and classified employees will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2012, this amount totaled approximately \$481,152 for all employees. The Board has reserved \$50,000 of its General Fund for unpaid sick leave benefits.

NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012

NOTE E - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

<u>Governmental Activities</u>	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
Land	\$ 1,109,955	\$ -	\$ -	\$ 1,109,955
Buildings and improvements	24,960,149	268,000	-	25,228,149
Technology equipment	1,615,283	99,634	380,148	1,334,769
Vehicles	597,695	300	-	597,995
General equipment	680,830	-	9,584	671,246
Totals at historical cost	28,963,912	367,934	389,732	28,942,114
Less: accumulated depreciation				
Buildings and improvements	16,082,551	367,525	276,971	16,173,105
Technology equipment	1,267,080	126,921	316,937	1,077,064
Vehicles	540,843	18,073	-	558,916
General equipment	505,175	37,535	6,285	536,425
Total accumulated depreciation	18,395,649	550,054	600,193	18,345,510
Governmental activities capital assets - net	<u>\$ 10,568,263</u>	<u>\$ (182,120)</u>	<u>\$ (210,461)</u>	<u>\$ 10,596,604</u>
<u>Business - Type Activities</u>				
General equipment	\$ 586,100	\$ -	\$ -	\$ 586,100
Technology equipment	6,245	5,617	4,946	6,916
Totals at historical cost	592,345	5,617	4,946	593,016
Less: accumulated depreciation				
General equipment	584,913	1,187	-	586,100
Technology equipment	6,245	1,030	4,946	2,329
Total accumulated depreciation	591,158	2,217	4,946	588,429
Business - type activities capital assets - net	<u>\$ 1,187</u>	<u>\$ 3,400</u>	<u>\$ -</u>	<u>\$ 4,587</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE F - LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
March 1, 2003	\$ 8,140,000	3.00% - 3.25%
January 1, 2006	\$ 150,291	3.00% - 3.625%
January 12, 2012	\$ 2,365,000	1.50% - 3.250%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Campbell County Fiscal Court and the City of Newport to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District entered into "participation agreements" with the School Facility Construction Commission (Commission). The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table in Note O sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

All issues may be called prior to maturity, and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2012, for debt service (principal and interest) are as reported on Note O on page 38.

NOTE G - RETIREMENT PLANS

Kentucky Teachers Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), a cost sharing, multiple-employer retirement system created by and maintained by Kentucky legislature. KTRS provides retirement, death and disability benefits to Plan members.

Plan members are required to contribute 10.355% of their annual creditable compensation. Members hired on or after July 1, 2008 pay an additional .5% of their salary to the medical insurance fund. Matching contributions are made by the state in the form of on behalf payments. The district is required to remit matching contributions on those school district employees whose salaries are paid by federally programs. This federal matching rate is 13.605% for employees hired before July 1, 2008 and 14.105% for employees hired after July 1, 2008. The contribution requirement for KTRS for the year ended June 30, 2012, was \$1,258,751 which consisted of \$264,260 from the District and \$999,491 from the employees. Total contributions for the year ended June 30, 2011 and 2010 were \$1,272,946 and \$1,259,561 respectively. The contributions have been contributed in full for fiscal years 2012, 2011 and 2010.

County Employees Retirement System

Classified employees who work an average of 80 hours per month over the actual days worked during the school year participate in the County Employees Retirement System (CERS). This is a cost sharing, multiple-employer, public employers retirement plan created and maintained by Kentucky legislature and provides retirement, death and disability benefits to Plan members.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE G - RETIREMENT PLANS (CONT'D)

Participating employees contribute 5% of creditable compensation. Participants hired after August 31, 2008 are required to contribute 6%. Matching contributions are made by the state at a rate as required by the Board of Trustees to be necessary for the actuarial soundness per Kentucky Revised Statute 61.565. The contribution requirement for CERS for the year ended June 30, 2012, was \$777,250, which consisted of \$612,032 from the District and \$165,218 from the employees. Total contributions for the year ended June 30, 2011 and 2010 were \$694,345 and \$727,974, respectively. The contributions have been contributed in full for fiscal years 2012, 2011 and 2010.

The District's total payroll for the year was \$12,805,531. The payroll for employees covered under KTRS was \$9,573,371 and for CERS was \$3,230,810.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits which is adjusted for the effects of projected salary increases and step-rate benefits that are estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligations for individual employers. KTRS and CERS both issue a publicly available financial report that includes all financial statements and required supplementary information. The reports can be obtained in writing from the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601-3800 and the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, KY 40601.

NOTE H - CONTINGENCIES

Grant Fund Approval

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue the programs.

NOTE I - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE J - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - DEFICIT OPERATING/FUND BALANCES

The District ended the year with no funds having a deficit fund balance.

The following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

Food Service Fund	\$ 53,802
Building Fund	\$ 183,137
Newport Alternated High School	\$ 6,069
Newport Primary School	\$ 4,069

NOTE L - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE M - TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
51	1	Indirect	\$ 57,821
1	2	Matching	\$ 61,374
320	360	Construction	\$ 183,136
2	1	Indirect	\$ 49,333
1	51	Indirect	\$ 3,231
1	7000	Athletics	\$ 135,261

NOTE N - ON-BEHALF PAYMENTS

For the year ended June 30, 2012 total payments of \$2,756,938 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded as revenues and expenses in the following funds:

General Fund	\$ 2,692,718
Food Service Fund	<u>64,220</u>
Total On-Behalf	<u>\$ 2,756,938</u>

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE O - SCHEDULE OF LONG-TERM OBLIGATIONS

2003 BOND ISSUE, 2006 KISTA ISSUE, 2012 BOND ISSUE

FISCAL YEAR	NEWPORT INDEPENDENT SCHOOL DISTRICT			KY. SCHOOL FACILITIES CONSTRUCTION COMMISSION			TOTAL REQUIREMENTS
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	
2012-2013	\$ 780,017	\$ 52,085	\$ 832,102	\$ 202,126	\$ 60,719	\$ 262,845	\$ 1,094,947
2013-2014	804,233	26,694	830,927	207,437	58,582	266,019	1,096,946
2014-2015	14,381	521	14,902	100,000	51,281	151,281	166,183
2015-2016	-	-	-	100,000	49,781	149,781	149,781
2016-2017	-	-	-	105,000	48,281	153,281	153,281
2017-2018	-	-	-	105,000	46,706	151,706	151,706
2018-2019	-	-	-	110,000	45,131	155,131	155,131
2019-2020	-	-	-	110,000	43,206	153,206	153,206
2020-2021	-	-	-	110,000	41,281	151,281	151,281
2021-2022	-	-	-	115,000	39,081	154,081	154,081
2022-2023	-	-	-	115,000	36,781	151,781	151,781
2023-2024	-	-	-	120,000	34,481	154,481	154,481
2024-2025	-	-	-	120,000	31,631	151,631	151,631
2025-2026	-	-	-	125,000	28,781	153,781	153,781
2026-2027	-	-	-	130,000	25,500	155,500	155,500
2027-2028	-	-	-	130,000	22,088	152,088	152,088
2028-2029	-	-	-	135,000	18,188	153,188	153,188
2029-2030	-	-	-	140,000	14,138	154,138	154,138
2030-2031	-	-	-	145,000	9,588	154,588	154,588
2031-2032	-	-	-	150,000	4,875	154,875	154,875
2032-2033	-	-	-	-	-	-	-
	<u>\$ 1,598,631</u>	<u>\$ 79,300</u>	<u>\$ 1,677,931</u>	<u>\$ 2,574,563</u>	<u>\$ 710,100</u>	<u>\$ 3,284,663</u>	<u>\$ 4,962,594</u>

NOTE R - SUBSEQUENT EVENTS

Subsequent events were considered through November 15, 2012, which represents the date of our audit report.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
AS OF JUNE 30, 2012**

	CAPITAL OUTLAY FUND	BUILDING FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
ASSETS			
CURRENT			
Cash and cash equivalents	\$ 20,698	\$ 287,641	\$ 308,339
Total assets	<u>\$ 20,698</u>	<u>\$ 287,641</u>	<u>\$ 308,339</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Restricted:			
SFCC Escrow	20,698	204,653	225,351
Unassigned	<u>-</u>	<u>82,988</u>	<u>82,988</u>
Total fund balances	<u>20,698</u>	<u>287,641</u>	<u>308,339</u>
Total liabilities and fund balances	<u>\$ 20,698</u>	<u>\$ 287,641</u>	<u>\$ 308,339</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

NEWPORT INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	CAPITAL OUTLAY FUND	BUILDING FUND	TOTAL NONMAJOR GOVERNMENT FUNDS
REVENUES:			
Taxes	\$ -	\$ 497,957	\$ 497,957
Earnings on investments	-	1,284	1,284
State sources	158,989	158,518	317,507
Federal sources	-	-	-
Other sources	-	-	-
	<hr/>	<hr/>	<hr/>
Total revenues	158,989	657,759	816,748
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Instructional	-	-	-
Student support services	-	-	-
Staff support services	-	-	-
District administration	-	-	-
School administration	-	-	-
Business support services	-	-	-
Plant operation and maintenance	-	-	-
Student transportation	-	-	-
Central office	-	-	-
Community service operations	-	-	-
Facility acquisition and construction	-	-	-
Debt service:			
Principal	121,675	620,446	742,121
Interest	37,314	37,314	74,628
	<hr/>	<hr/>	<hr/>
Total expenditures	158,989	657,760	816,749
	<hr/>	<hr/>	<hr/>
Excess of expenditures over revenues	-	(1)	(1)
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	-	-	-
Operating transfers out	-	(183,136)	(183,136)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	-	(183,136)	(183,136)
	<hr/>	<hr/>	<hr/>
Excess of expenditures and other financing uses over revenues and other financing sources	-	(183,137)	(183,137)
	<hr/>	<hr/>	<hr/>
Fund balance, July 1, 2011	20,698	470,778	491,476
	<hr/>	<hr/>	<hr/>
Fund balance, June 30, 2012	<u>\$ 20,698</u>	<u>\$ 287,641</u>	<u>\$ 308,339</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
BOND AND INTEREST REDEMPTION FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>ISSUE OF 2003</u>	<u>2006 KISTA</u>	<u>ISSUE OF 2012</u>	<u>TOTAL</u>
Cash at July 1, 2011	\$ -	\$ -	\$ -	\$ -
Receipts:				
Transfers and miscellaneous deposits	<u>816,749</u>	<u>24,728</u>	<u>-</u>	<u>841,477</u>
Disbursements:				
Bonds paid	742,121	15,685	-	757,806
Interest coupons	<u>74,628</u>	<u>9,043</u>	<u>-</u>	<u>83,671</u>
Total disbursements	<u>816,749</u>	<u>24,728</u>	<u>-</u>	<u>841,477</u>
Excess of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash at June 30, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accounts Receivable and Payable				
Matured interest and bonds outstanding	-	-	-	-
Due from other funds	-	-	-	-
Due to other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accounts receivable and payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance at June 30, 2012	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
NEWPORT HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	FUND BALANCE JULY 1, 2011	RECEIPTS	DISBURSEMENTS	FUND BALANCE JUNE 30, 2012
Academic team	\$ 44	\$ -	\$ -	\$ 44
Alumni fund	934	4,500	3,917	1,517
Annual	96	4,920	1,686	3,330
Art	102	-	-	102
Baseball	-	2,220	917	1,303
Business	249	-	19	230
Cheerleading	51	2,312	2,307	56
Class of 2010	151	-	151	-
Class of 2011	71	-	71	-
Class of 2012	1,161	4,082	4,100	1,143
Class pf 2013	-	7,874	7,037	837
Coke account	3,085	2,062	2,029	3,118
Commercial art	76	-	-	76
D.E.C.A.	63	-	-	63
Digital photography club	323	-	-	323
Drama	769	-	-	769
F.B.L.A.	1,013	2,620	3,749	(116)
F.C.C.L.A.	2,482	-	712	1,770
Fine arts	11	-	-	11
Football activities	-	7,022	6,690	332
Graduate Services Teacher	-	150	150	-
Graphic arts	3,496	28,548	24,834	7,210
Guidance - early admission	572	-	-	572
Home economics-Jessica Cope	16	478	363	131
Industrial shop	782	145	-	927
Interest account	224	27	-	251
Key club	3,285	-	337	2,948
Library	182	500	106	576
Math	692	-	-	692
Media	117	-	-	117
Media video challenge	38	-	38	-
MSD	17	-	-	17
National Honor's Society	407	-	-	407
Officials	685	41,163	34,818	7,030
PE uniforms purchased	195	-	195	-
PE and health	116	-	-	116
Physical education - grant	12	-	12	-
Recycling	89	18	-	107
Retirement donations	92	191	216	67
School newspaper	241	-	120	121
Science	323	3,000	205	3,118
Skills USA	5,328	105	1,251	4,182
Snack machine	170	-	-	170
Social studies	212	150	-	362
Softball	-	854	49	805

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
NEWPORT HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	FUND BALANCE JULY 1, 2011	RECEIPTS	DISBURSEMENTS	FUND BALANCE JUNE 30, 2012
Softball club	\$ 284	\$ -	\$ -	\$ 284
SOS club	67	-	-	67
Spanish foreign language	71	-	-	71
Spanish honor society	266	-	-	266
Student activity	963	3,081	1,332	2,712
Student council	305	1,148	1,042	411
Student incentive donations	-	250	-	250
Sunshine	506	100	150	456
Target - take charge of education	943	52	-	995
Teachers lounge coke	1,394	2,067	2,072	1,389
Telephone account	403	-	403	-
Textbooks	1,210	-	-	1,210
Track	-	2,691	1,335	1,356
Transcripts	236	-	236	-
Transcripts and records	201	3,704	3,693	212
Twenty-First Century project	30	-	30	-
Wal-Mart activities fund	300	-	-	300
Water machine	793	-	793	-
Youth service mental health	277	-	277	-
Total	<u>\$ 36,221</u>	<u>\$ 126,034</u>	<u>\$ 107,442</u>	<u>\$ 54,813</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
STATEMENTS OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES
SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

	NEWPORT ALTERNATIVE HIGH SCHOOL	NEWPORT MIDDLE SCHOOL	NEWPORT INTERMEDIATE SCHOOL	NEWPORT PRIMARY SCHOOL	TOTAL
Fund balances at July 1, 2011	\$ 8,724	\$ 10,773	\$ 21,507	\$ 20,010	\$ 61,014
Add: receipts	32,298	41,078	36,703	16,431	126,510
Less: disbursements	<u>(38,367)</u>	<u>(36,207)</u>	<u>(23,872)</u>	<u>(20,500)</u>	<u>(118,946)</u>
Fund balances at June 30, 2012	<u>\$ 2,655</u>	<u>\$ 15,644</u>	<u>\$ 34,338</u>	<u>\$ 15,941</u>	<u>\$ 68,578</u>

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

	CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	EXPENDITURES	PROGRAM / CLUSTER TOTALS
U.S. DEPARTMENT OF EDUCATION				
Adult Education - State Grant Program	84.002	N/A	\$ 7,128	\$ 7,128
Safe & Drug-Free Schools and Communities-National Programs	84.184	N/A	147,385	147,385
<i>Passed through the Kentucky Department of Education:</i>				
Career and Technical Education - Basic Grants to States	84.048	4621232 11	31,756	31,756
Improving Teacher Quality State Grant	84.367	3230002 10	82,305	
Improving Teacher Quality State Grant	84.367	3230002 11	247,023	329,328
Education Technology State Grant - Recovery Act	84.386	4210002 09	2,502	2,502
Twenty-First Century Community Learning Centers	84.287	3400002 10	99,710	
Twenty-First Century Community Learning Centers	84.287	3400002 09	33,470	133,180
Safe and Drug-Free Schools and Communities - State Grants	84.186	3410002 09	17	17
Education Jobs Fund	84.410	EJOB00 10	65,857	65,857
School Improvement Grants Cluster:				
School Improvement Grant - Recovery Act	84.388	4100302 09	55,469	
School Improvement Grants	84.377	3100302 10	474,704	530,173
Title I - Cluster:				
Title I - Grants to Local Educational Agencies	84.010	3100002 11	942,464	
Title I - Grants to Local Educational Agencies	84.010	3100002 10	548,116	1,490,580
Special Education Cluster:				
Special Education Grants to States - Recovery Act	84.391	4810002 10	47,831	
Special Education Grants to States	84.027	3810002 10	36,873	
Special Education Grants to States	84.027	3810002 11	509,059	
Special Education Preschool Grants	84.173	3800002 11	20,498	614,261
Total U.S. Department of Education			3,352,167	3,352,167
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed through the Kentucky Department of Education</i>				
Fresh Fruit and Vegetable Program	10.582	7720012 12	31,522	31,522
Child Nutrition Cluster:				
National School Lunch Program	10.555	7750002 12	521,936	
National School Lunch Program	10.555	7750002 11	118,770	
School Breakfast Program	10.553	7760005 12	172,322	
School Breakfast Program	10.553	7760005 11	38,281	
Summer Food Service Program for Children	10.559	7690024 11	901	
Summer Food Service Program for Children	10.559	7740023 11	8,715	
<i>Passed through the Kentucky Department of Agriculture</i>				
National School Lunch Program - Food Donation	10.555	019-0203	63,652	924,577
Total U.S. Department of Agriculture			956,099	956,099
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed through the Kentucky Department of Education</i>				
Cooperative Agreements to Support Comprehensive School Health				
Programs to Prevent the Spread of HIV and Other Important Health				
Problems	93.938	2000001 11	77	77
Total U.S. Department of Health and Human Services			77	77
Total Expenditures of Federal Awards			\$ 4,308,343	\$ 4,308,343

(See Auditors' Report and Accompanying Notes to the Financial Statements)

**NEWPORT INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Newport Independent School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the basic financial statements of the Newport Independent School District.
2. No significant deficiency relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. No instances of noncompliance material to the financial statements of the Newport Independent School District were disclosed during the audit.
4. No significant deficiency relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for Newport Independent School District expresses an unqualified opinion on all major federal programs.
6. The audit did not disclose any findings reportable under section 510 (a) of OMB Circular A-133.
7. The programs tested as major programs include: School Breakfast Program, CFDA #10.553; National School Lunch Program, CFDA #10.555; Summer Food Service Program for Children, CFDA #10.559; Special Education Grants to States - Recovery Act, CFDA #84.391; Special Education Grants to States, CFDA #84.027; Special Education Preschool Grants, CFDA #84.173; Education Technology State Grant - Recovery Act, CFDA #84.386; School Improvement Grant – Recovery Act, CFDA #84.388; School Improvement Grants, CFDA #84.377; and Title I – Grants to Local Educational Agencies, CFDA #84.010.
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. Newport Independent School District does not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

**NEWPORT INDEPENDENT SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
FOR THE YEAR ENDED JUNE 30, 2012**

BOARD MEMBERS

Willis Gregory
Term Expires - December 31, 2012

Dr. Julie Smith-Morrow
Term Expires - December 31, 2012

Ramona Malone
Term Expires - December 31, 2014

Melissa Sheffel
Term Expires – December 31, 2012

Matthew Scott
Term Expires - December 31, 2012

ADMINISTRATIVE PERSONNEL

Mr. Kelley Middleton
Superintendent

Tete Turner, Jr.
Chief Finance Officer

Kim Klosterman
Secretary to the Board of Education

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Members of the Board of Education
Newport Independent School District
301 East 8th Street
Newport, Kentucky 41071

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Newport Independent School District as of and for the year ended June 30, 2012, which collectively comprise the Newport Independent School District's basic financial statements and have issued our report thereon dated August 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report.

Internal Control Over Financial Reporting

Management of Newport Independent School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Newport Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Newport Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Newport Independent School District's internal control over financial reporting.

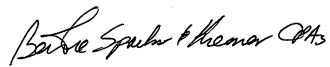
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Newport Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Bertke, Sparks & Kremer, Inc.
August 20, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Members of the Board of Education
Newport Independent School District
301 East 8th Street
Newport, Kentucky 41071

Compliance

We have audited Newport Independent School District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Newport Independent School District's major federal programs for the year ended June 30, 2012. Newport Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Newport Independent School District's management. Our responsibility is to express an opinion on Newport Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Independent Auditor's Contract – State Audit Requirements, Appendix III to the Independent Auditor's Contract - Audit Extension Request and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Newport Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Newport Independent School District's compliance with those requirements.

In our opinion, Newport Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

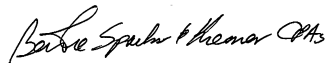
Internal Control Over Compliance

Management of Newport Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Newport Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Newport Independent School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the audit committee, management, federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.



Bertke, Sparks & Kremer, Inc.
August 20, 2012

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

In planning and performing our audit of the financial statements of Newport Independent School District for the year ended June 30, 2012, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

This letter does not affect our report dated August 20, 2012 on the financial statements of the Newport Independent School District.

CURRENT YEAR RECOMMENDATIONS

Central Office

Any exceptions noted in testing appeared to be isolated incidents only.

...

ACTIVITY FUNDS

Newport High School

Any exceptions noted in testing appeared to be isolated incidents only.

...

Newport Alternative High School

Any exceptions noted in testing appeared to be isolated incidents only.

...

Newport Middle School

Any exceptions noted in testing appeared to be isolated incidents only.

...

Newport Intermediate School

Any exceptions noted in testing appeared to be isolated incidents only.

...

Newport Primary School

Any exceptions noted in testing appeared to be isolated incidents only.

**NEWPORT INDEPENDENT SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2012**

STATUS OF PRIOR YEAR RECOMMENDATIONS

Central Office

None noted

Newport High School

Condition: Ticket forms in the Redbook are not being completed properly. First and last unused tickets are not consistently being attached to the form.

Recommendation: Individuals in charge of the ticket sales should be educated in the proper use of the ticket forms and obtain an understanding of the accounting process and the need to attach the first and last unused tickets.

Current Status: Ticket forms are currently being completed correctly.

Newport Alternative High School

None noted

...

Newport Middle School

None noted

...

Newport Intermediate School

None noted

...

Newport Primary School

None noted